

Message Text

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ACTION NEA-11

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R 100628Z MAY 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 7118
INFO AMEMBASSY PARIS

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PARIS FOR USOECD

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TAGS: EAID, EFIN, PK
SUBJECT: GOP'S TRADITIONAL PRE-CONSORTIUM MEETING

REF: ISLAMABAD 4232

SUMMARY: ON MAY 5, FINANCE SECRETARY-GENERAL KAZI PRESENTED
CUSTOMARY PRE-CONSORTIUM MEMORANDUM TO CONSORTIUM AMBASSADORS.
DOCUMENT AND ACCOMPANYING REMARKS NOTE SOMEWHAT BETTER ECONOMIC
SITUATION, INCLUDING 5.5 PERCENT GNP GROWTH, BETTER EXPORTS, AND
LOWER RATE OF INFLATION. KAZI PRAISED APRIL 7 WORLD BANK REPORT
AND SAID CURRENT GOP POLICY CONSISTENT WITH IT. NEW FIVE YEAR
PLAN HAS OVERALL GROWTH RATE TARGET OF 6.5 PERCENT -- 6 PERCENT
IN AGRICULTURE AND 10 PERCENT IN INDUSTRY. STRATEGY, HE SAID,
EMPHASIZES RURAL DEVELOPMENT AND BASIC HUMAN NEEDS. INDUSTRIAL
EMPHASIS WILL BE SHIFTED TO EXPORTS, AS BANK RECOMMENDS, BUT THIS
WILL TAKE TIME WHILE EXISTING CAPITAL-INTENSIVE PROJECTS ARE
COMPLETED. ANNUAL PLAN FOR PFY 78/79 IS IN FRAMEWORK OF NEW FIFTH
PLAN AND WILL SHOW THE START OF THE TRANSITION TO THE NEW
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APPROACH. IN PFY 78/79, CURRENT ACCOUNT DEFICIT IS EXPECTED TO
SHOW LITTLE CHANGE PARTLY BECAUSE REPAYMENT OF SHORT TERM DEBT
ACQUIRED THIS YEAR, FINANCING NEED INCREASES FROM \$1.3 BILLION TO
ALMOST \$1.6 BILLION. PROJECTED GAP IS TO BE FINANCED FROM NEW AND
EXISTING AID AND FROM \$264 MILLION OF DEBT RESCHEDULING. WORKERS'
REMITTANCES ARE FORECAST TO INCREASE BY ONLY FURTHER \$100 MILLION
(TO \$1.1 BILLION) BECAUSE THIS YEAR'S RAPID INCREASE CANNOT BE

EXPLAINED BY NUMBER OF NEW WORKERS ABROAD AND IT IS UNCERTAIN HOW LONG RAPID INCREASE CAN BE MAINTAINED. KAZI INDICATED THAT IRANIAN-GUARANTEED CITIBANK LOAN IS STILL ALIVE AND IF IT COMES THROUGH WILL BE USED TO REPAY THIS YEAR'S INSTALLMENTS OF IRANIAN LOAN AND SHORT TERM DEBT. END SUMMARY.

1. ON MAY 8, ADVISOR TO CMLA ON FINANCE AND SECRETARY-GENERAL OF FINANCE A.G.N. KAZI SUMMONED THE AMBASSADORS OF THE AID TO PAKISTAN CONSORTIUM COUNTRIES TO PRESENT THE GOP'S "MEMORANDUM FOR THE PAKISTAN CONSORTIUM: 1978/79". KAZI COMMENCED BY SAYING THAT HE HAD NOT INTENDED TO GIVE THE IMPRESSION AT THE APRIL 29 MEETING ON PAKISTAN'S DEBT RESCHEDULING REQUEST (REFTEL) THAT PAKISTAN BLAMED ALL OF ITS PROBLEMS ON ADVERSE EXTERNAL FACTORS AND INTENDED TO DO NOTHING ITSELF TO IMPROVE ITS SITUATION. QUITE THE CONTRARY, PAKISTAN RECOGNIZED MANY POLICY CHANGES IT MUST MAKE AND WAS DETERMINED TO MAKE THEM. HE THEN REFERRED TO THE APRIL 7 WORLD BANK REPORT WHICH HE PRAISED HIGHLY AS EVEN BETTER THAN USUAL. THERE WERE NO MAJOR DISAGREEMENTS AND THE GOP'S MEMORANDUM IS CONSISTENT WITH IT. HOWEVER, THE BANK'S 1978/79 BOP FORECAST, BASED ON EARLIER GOP DATA, UNDERSTATES THE GAP BY EXCLUDING CERTAIN SHORT TERM DEBT. THE ACTUAL GAP, ACCORDING TO KAZI, IS PROJECTED AT \$1,559 MILLION, WHICH THE BANK CARRIES AS \$1,334 MILLION.

2. KAZI SAID THE CURRENT YEAR (PFY 77/78) MUST BE VIEWED AGAINST THE BACKGROUND OF PFY 76/77 WHEN EXPORTS CONTINUED TO STAGNATE, LIMITED OFFICIAL USE

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PRICES SOARED, AND PERCAPITA GDP ACTUALLY FELL. THE PRESENT GOVERNMENT TOOK CERTAIN MEASURES WHEN IT CAME INTO POWER TO REDUCE THE BUDGET DEFICIT AND STIMULATE OUTPUT. THE RESULTS HAVE BEEN ENCOURAGING. THIS YEAR, THERE WILL BE A 5.5 GNP GROWTH. (KAZI DID NOT MENTION THAT THIS BETTER GNP PERFORMANCE OWES MUCH TO WORKERS' REMITTANCES AND GDP GROWTH WILL BE CONSIDERABLY LESS.) MANUFACTURING HAS NOT LIVED UP TO EXPECTATIONS BECAUSE OF STAGNATION IN TEXTILES AND PAPER. HOWEVER, EXPORTS HAVE REVIVED AND WILL BE UP 15-20 PERCENT ABOVE LAST YEAR. THE SAVINGS RATE IS ALSO UP AND THE MARGINAL RATE THIS YEAR IS ABOUT 16 PERCENT. WORKERS' REMITTANCES ARE LIKELY TO TOP \$1 BILLION. PRICE PERFORMANCE HAS BEEN VERY GOOD INDEED, BETTER THAN COULD BE EXPECTED WITH A BUDGET DEFICIT OF \$600 MILLION. THE 12-MONTH MARCH-MARCH WHOLESALE PRICE AND COST OF LIVING INDICES BOTH SHOW AN INCREASE OF ONLY 7 PERCENT. (WORLD BANK REPRESENTATIVE DEN TUINDER ASKED WHY PERFORMANCE WAS BETTER THAN THE BUDGET DEFICIT WOULD LEAD ONE TO EXPECT. KAZI'S ANSWER WAS INCONCLUSIVE.)

3. TURNING TO THE NEW FIVE YEAR PLAN, KAZI SAID THAT THE MODEL THE PLANNING DIVISION WORKED WITH SHOWED A 7.3 PERCENT GROWTH RATE OVER THE NEXT FIVE YEARS, HOWEVER, THEY HAD DECIDED TO BE CONSERVATIVE AND REDUCED IT TO 6.5 PERCENT. NEXT YEAR THE RATE OF

INCREASE SHOULD BE 6 PERCENT. OVER THE FIVE YEARS, A 6 PERCENT RATE OF ANNUAL INCREASE IS EXPECTED IN AGRICULTURE AND 10 PERCENT IN INDUSTRY.

4. THE STRATEGY IN THE PLAN IS IN LINE WITH WHAT THE BANK RECOMMENDED IN ITS APRIL 7 REPORT. THERE WILL BE IMPORTANT SHIFTS IN POLICY TOWARDS RURAL DEVELOPMENT AND BASIC HUMAN NEEDS; AVAILABILITY OF WATER AND FERTILIZER WILL BE INCREASED; THERE WILL BE A SYSTEMATIC APPROACH TO EXTENSION SERVICES.

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R 100628Z MAY 78
FM AMEMBASSY ISLAMABAD
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INFO AMEMBASSY PARIS

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5. IN THE INDUSTRIAL SECTOR, THE GOP WILL AS A POLICY MATTER FOLLOW THE BANK'S RECOMMENDATIONS TO CURTAIL THE OVERALL LEVEL OF INVESTMENT AND TO STRESS SMALLER PROJECTS PROMISING EXPORT POTENTIAL AND EMPLOYMENT GENERATION. IN PRACTICE THE TRANSITION WILL TAKE TIME, HOWEVER, BECAUSE "WE ARE STUCK" WITH A NUMBER OF PRIOR COMMITMENTS, NOTABLY KARACHI STEEL MILL. HOWEVER, NEW LONG GESTATION PROJECTS HAVE BEEN PUT ON THE SHELF.

6. TO IMPROVE THE LOT OF THE RURAL POPULATION THERE WILL BE AN IMPORTANT SHIFT TO EMPHASIZE PRIMARY EDUCATION, AGRICULTURAL PROGRAMS AND RURAL CLEAN WATER. IN POPULATION, KAZI SAID DECISION HAD BEEN TAKEN IN LINE WITH IBRD RECOMMENDATIONS TO INTEGRATE DELIVERY OF FAMILY PLANNING SERVICES WITH BASIC HEALTH SERVICES. THEIR PAST EXPERIENCE HAD BEEN SO BITTER, HOWEVER, THAT THEY WERE RELUCTANT TO PREDICT THE SUCCESS OF THIS CHANGE IN POLICY.

7. HE SAID THERE COULD BE NO TWO WAYS OF LOOKING AT PROBLEMS WITH THE BALANCE OF PAYMENTS AND INFLATIONARY PRESSURE. "UNPLEASANT DEFICITS" WOULD HAVE TO BE FACED TO SOLVE THEM. ALL-OUT EFFORTS

TO RAISE ADDITIONAL REVENUE WOULD BE UNDERTAKEN. PLANNED
INVESTMENT LEVEL WOULD BE CUT IF THE RESOURCES CAN'T BE FOUND,
BUT
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IT WAS IMPORTANT TO REMEMBER THAT IF THE SIZE OF THE PLAN IS
GREATLY REDUCED FROM PROPOSED LEVEL THE DESIRED SHIFT IN EMPHASIS
TOWARDS BASIC NEEDS STRATEGY CANNOT BE ACHIEVED BECAUSE OF HIGH
LEVEL OF EXISTING FINANCIAL COMMITMENTS TO PROJECTS ALREADY
STARTED. THEY WILL CURTAIL CONSTRUCTION OF THE INXUS HIGHWAY AND
OF RAILWAYS TO THE MAXIMUM EXTENT POSSIBLE
V BUT KAZI SAID THERE
WAS LITTLE SAVINGS TO BE MADE IN THESE AREAS. (THIS IS A
SIGNIFICANT RETREAT FROM HIS STATEMENT TO THE PRE-CONSORTIUM LAST
DECEMBER WHEN HE SAID THE INDUS HIGHWAY WAS "(INDEFINITELY
POSTPONED".)

8. HE NOTED THE BANK CRITICIZED PAKISTAN FOR TO SMALL PUBLIC
SAVINGS. THEY ARE NOW RUNNING AT 2.1 PERCENT OF GNP AND THE BANK
HAS SUGGESTED 3.5 PERCENT. KAZI SAID PAKISTAN SHOULD REACH THAT
LEVEL NEXT YEAR AND HOPED IT WOULD REACH 6 PERCENT BY THE END OF
THE NEXT FIVE YEAR PLAN.

9. AS A RESULT OF THE MORE FAVORABLE ATTITUDE TOWARDS THE PRIVATE

SECTOR, PRIVATE INVESTMENT HAS INCREASED 20 PERCENT OVER LAST
YEAR BUT THIS IS NOT YET ENOUGH.

10. KAZI SAID THE ANNUAL PLAN FOR 1978/79 IS BEING PREPARED
WITHIN THE FRAMEWORK OF THE FIFTH PLAN AND WILL BE THE YEAR IN
WHICH THE START TO THE TRANSITION TO THE NEW RURAL DEVELOPMENT
APPROACH WILL BE VISIBLE. THE 6 PERCENT GROWTH FORECAST IS BELOW
THE FIVE YEAR PLAN AVERAGE, BUT THIS IS BECAUSE THE LARGE SCALE
MANUFACTURE PROJECTS WILL NEED MORE TIME TO BE ONSTREAM.
AGRICULTURAL GROWTH IS FORECAST AT 5.6 PERCENT. ALSO BELOW THE

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FIFTH PLAN TARGET OF 5.8 PERCENT MAINLY BECAUSE PROJECTS IN THE
LIVESTOCK SECTOR ARE STILL IN THEIR INITIAL STAGE. COTTON WILL
INCREASE OVER THIS YEAR BUT ONLY TO 5.3 RULLION BALES, WELL
BELOW THE RECORD CROPS EARLIER IN THE DECADE, BUT A CHPTON

MAXIMIZATION PROJECT HAS BEEN LAUNCHED.

11. KAZI SAID THE GOP FORECASTS MERCHANDISE EXPORTS IN PFY 78/79 TO INCREASE BY 16.6 PERCENT AND IMPORTS BY 9.3 PERCENT. WORKERS' REMITTANCES ARE EXPECTED TO INCREASE BY 10 PERCENT. THESE FORECASTS MEAN MERCHANDISE EXPORTS OF \$1.56 BILLION, IMPORTS OF \$1.3 BILLION, AND A CURRENT INVISIBLES SURPLUS OF \$.54 BILLION, FOR A CURRENT ACCOUNT DEFICIT OF JUST OVER \$1 BILLION. THIS IS ABOUT THE SAME CURRENT ACCOUNT GAP AS EXPECTED THIS YEAR. HOWEVER, LARGER CAPITAL PAYMENTS INCLUDING THE PROJECTED REPAYMENT OF \$170 MILLION OF SHORT TERM LOANS ACQUIRED IN FY 77/78 INCREASE THE AMOUNT TO BE FINANCED BY 8 OR 95.

R MEANS

FROM \$1.3 BILLION IN FY 77/78 TO ALMOST 1.6 BILLION IN FY 78/79. THIS PROJECTED GAP IS TO BE FINANCED FROM PIPELINE AND NEW AID, FROM ROLLING OVER OF SHORT TERM CREDITS AND, FROM DEBT RESCHEDULING. (SEE PAGE 36 OF CONSORTIUM DOCUMENT FOR DETAILS.)

12. THE LARGEST SINGLE INCREASE IN PROJECTED MERCHANDISE IMPORTS NEXT YEAR IS WHEAT, WHICH IS PROJECTED TO INCREASE FROM \$145 MILLION IN FY 77/78 TO \$225 MILLION IN FY 78/79. THE LARGER AMOUNT IS REQUIRED BECAUSE OF APPARENT STAGNATION OF WHEAT OUTPUT IN THE CURRENT YEAR, COMBINED WITH INCREASING DEMAND FROM LARGER POPULATION AND SOMEWHAT HIGHER INCOMES. IMPORTS OF AT LEAST 1.5 MILLION TONS WILL BE REQUIRED IN COMING YEAR AS COMPARED 1.1 MILLION IN CURRENT YEAR.

13. THE RELATIVELY SUBSTANTIAL INCREASE IN EXPORTS IS MAINLY FROM COTTON AND COTTON PRODUCTS AND RICE, ALTHOUGH ANOTHER LARGE INCREASE IN NON-TRADITIONAL EXPORTS IS ALSO EXPECTED.

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14. SURPRISINGLY, HE INDICATED THAT THE \$300 MILLION CITIBANK LOAN WHICH WAS TO BE GUARANTEED BY IRAN IS ONLY DELAYED. HE SAID THAT IF IT MATERIALIZES THIS YEAR OR NEXT, PAKISTAN WILL USE ITS PROCEEDS TO REPAY THE DEFERRED INSTALLMENTS ON THE IRANIAN LOAN AND APPLY THE BALANCE TO SHORT-TERM DEBT.

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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 7120
INFO AMEMBASSY PARIS

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15. KAZI WAS QUESTIONED ABOUT THE FAIRLY SMALL INCREASE PROJECTED IN WORKERS' REMITTANCES. KAZI ADMITTED THIS WAS AN UNCERTAIN AREA BUT POINTED OUT THAT THE SHARP INCREASE IN WORKERS' REMITTANCES IN FY 78/79 COULD NOT BE EXPLAINED BY THE INCREASE IN THE NUMBER OF WORKERS DURING THE YEAR WHICH WAS MUCH SMALLER. THE PHENOMENON IS TOO LITTLE UNDERSTOOD TO PERMIT BASIC FORECASTS OF THE BALANCE OF PAYMENTS AND CAPITAL INFLOW NEEDS ON A PROJECTION OF PAST TRENDS. THE WORLD BANK REPRESENTATIVE NOTED THAT THE BANK WAS UNDERTAKING A STUDY ON THE SUBJECT SO THAT IT CAN BE BETTER UNDERSTOOD IN THE CONTEXT OF PAKISTAN'S ECONOMIC PERFORMANCE AND REQUIREMENTS. THE STUDY WILL INCLUDE THE IMPACT OF THE LOSS OF SKILLED LABOR ON PAKISTAN'S DOMESTIC ECONOMIC PERFORMANCE AND THE USE TO WHICH WORKERS' REMITTANCES RECEIPTS ARE PUT IN PAKISTAN.

16. WE ARE POUCHING FOUR COPIES OF THE MEMORANDUM TO H. R. LUCIUS, NEA/PAB AND TWO COPIES TO LLOYD JONES, OLD, PARIS.

17. WE WILL REPORT SEPARATELY OUR LATEST VIEWS ON US POSTURE AT JUNE 1-2 MEETING.
HUMMEL

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